Alberta economic trends

March 2012

Firmly in Expansion Mode

The latest suite of monthly data confirms that Alberta's economy is expanding at a solid pace. Despite ongoing global uncertainty, indicators of business activity continue to trend higher, aided by strong oil prices and rock-bottom interest rates.

For households, a pick-up in business activity has translated into job opportunities. Alberta recorded the nation's strongest annual job growth in January, supporting gains in wages and consumer spending.

Overall, Alberta's economy finished 2011 much stronger than it started, and the momentum from last year's performance looks to be carrying forward into 2012.

Key Indicators — All indicators seasonally adjusted unless otherwise indicated

Indicator	Latest Month	Value	Change (year-over-year)
Employment (000s)	January	2,135	+3.9%
Unemployment Rate	January	4.9%	-1.0 p.p.*
CPI Inflation	January	2.9%	+1.9 p.p.*
Retail Sales	December	$5.57B	+7.1%
Housing Starts (annualized)	February	31,100	+38.2%
Rigs Drilling (unadjusted)	February	459	+14.5%
Manufacturing Shipments	December	$6.32B	+15.8%
Exports	December	$8.71B	+14.5%

* Percentage points

Business Sector

Business activity in Alberta has improved markedly over the last year. The energy sector has been a key driver, propelled by solid oil prices and improvements in drilling techniques. Yet gains have not been limited to energy; farmers, manufacturers and retailers are all in the midst of a healthy expansion.

Energy sector powers ahead

Strong oil prices, averaging US$100.30/bbl (WTI) in the first two months of this year, continue to support the energy sector. Rig activity is on a clear upward trend, rising on a year-over-year (y/y) basis in each of the last 25 months and reaching the highest monthly level in nearly 6 years in February.

Looking at total meters drilled reveals that all this growth is coming from the oil sector. Oil meters drilled jumped 16% y/y in the final month of 2011, while gas meters sank 37% as high inventories and depressed prices continue to discourage natural gas drilling.

Statistics Canada's recent survey of investment intentions points to continued growth in the oil patch. In 2012, the oil and gas industry intends to increase investment by 16% to $48.2 billion, the highest level on record. Oil sands capital spending alone is expected to rise $5 billion, to $26 billion this year.

Value of industry output soars

Alberta's continued surge in exports is one sign of a healthy business climate. The value of international exports has been marching upwards since mid 2009, and shows little signs of slowing despite the Canadian dollar climbing to around parity with the US greenback. The latest export reading, a 15% y/y improvement in December, is the 24th consecutive month of year-over-year gains. A resurgence in the energy and agricultural sectors is playing a major role, leading all sectors in export growth in December.

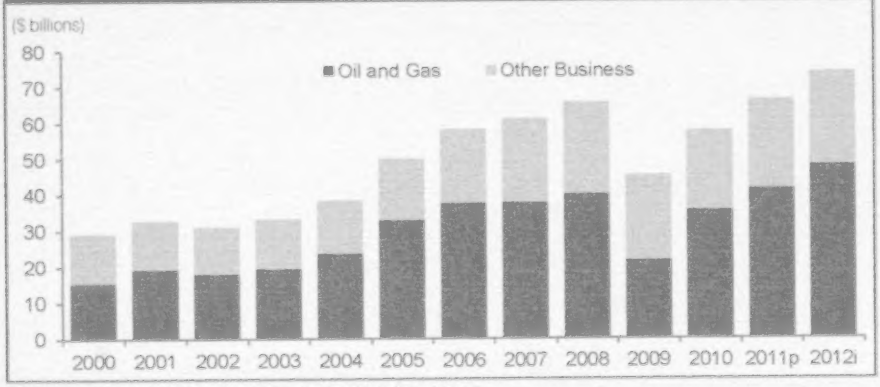
Mirroring the upward trend in exports, manufacturing shipments have risen 16% over the same period.

Building activity set to ramp up

Stronger investment intentions and near record low interest rates bode well for Alberta's construction sector. After a soft first half in 2011, new home building gained strength as the year progressed. To begin 2012, housing starts were up more than 30% y/y in both January and February.

While a pullback in government investment continues to weigh on non-residential construction, industrial and commercial construction was up 19% y/y in the fourth quarter of 2011. Overall, the latest permit data suggest that building activity is set to improve relative to last year, with January permits up 27.9% y/y.

Alberta Business Investment



Source: Statistics Canada, p=preliminary, i=intentions.

Household Sector

With conditions improving, businesses have not hesitated to add to payrolls. Alberta's nation-leading job growth has driven up incomes and contributed to strong retail sales.

Job creation spills over to 2012

After a banner year for Alberta's labour market (see pg. 4), the province continued to create jobs in the first month of 2012. The province gained another 1,900 jobs in January, a modest increase but still impressive given that it was the ninth monthly gain in a row. Alberta has registered the strongest employment growth in the country at 3.9% y/y, with all gains coming in full-time, private sector positions.

Alberta's job situation stands in sharp contrast to the rest of Canada's, which has shown signs of slowing. Over the past 6 months of data, Canada's labour market has eked out an average of only 2,800 new jobs per month and watched its jobless rate rise from 7.3% to 7.6%. Over the same period, Alberta created 5,100 jobs per month and the unemployment rate fell from 5.6% to the lowest in Canada at 4.9%.

Wage growth accelerates

A tighter labour market has filtered through to earnings. Growth in average weekly earnings has accelerated in recent months, rising by 5.2% y/y in December – the strongest gain in nearly a year and more than double the national rate of increase.

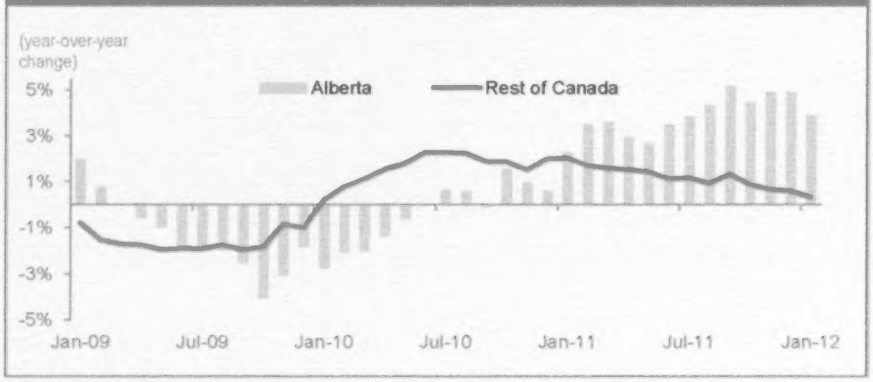
The pick-up in earnings has been timely, coming just as inflation readings have been elevated. Inflation stayed at 2.9% in January, the fourth straight month above the national average. Energy and food prices are to blame; removing these volatile components, inflation was a more tepid 1.4% in January.

One CPI item to watch closely is electricity prices. Notoriously volatile, the price of electricity was the single largest contributor to inflation in Alberta in January (+0.4% y/y). Relief from further electricity price increases, as expected in March, should put downward pressure on the headline index going forward.

Retail sales close a record year

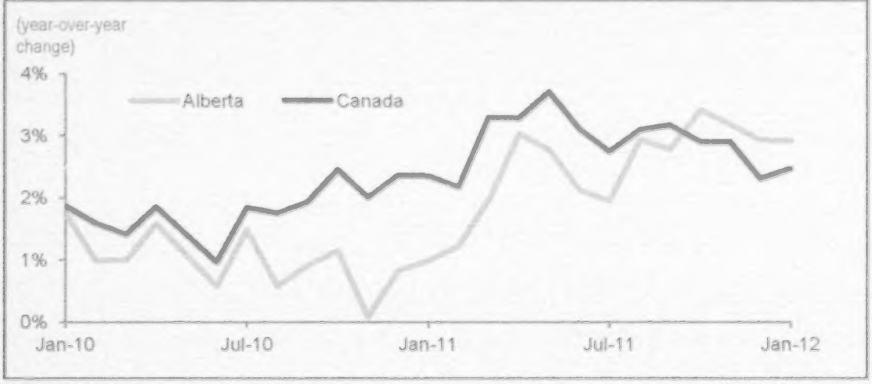
Alberta's healthy job market continues to translate into robust spending at the tills. Retailers watched activity pick up strongly in the second half of 2011, and since September, sales have exceeded their pre-recession peaks. Retail spending soared 7.1% y/y in December, second only to Saskatchewan. Apart from a price driven increase in gasoline sales, much of Alberta's annual retail strength came from purchases of durable goods (e.g. motor vehicles up 10% y/y), a sign of healthy consumer confidence. As the largest contributors to the economy, consumers are doing their part to support Alberta's expansion.

Employment Growth



Source: Statistics Canada

Consumer Price Index (CPI)



Source: Statistics Canada

Lining up for Trucks

Alberta vehicle sales have shown remarkable strength in recent months, with a 10% y/y increase in December. A closer look at the numbers reveals an interesting trend: all the growth in Alberta auto sales can be accounted for by truck sales (which broadly includes SUVs, trucks and vans). Indeed, while truck sales surged 15.9% in December, car sales shrank 8.1%. Expanding the period to cover all of 2011 tells the same story; a decline in car sales was more than offset by spike in truck purchases.

There are two possible explanations for this trend. First, that truck purchases are being fueled by commercial buyers (such as fleet purchases), specifically the oil and gas industry. The high growth in truck sales coincides with the energy sector heating up. Second, truck sales may be driven by changing consumer preferences. Regardless of the source, strength in vehicle sales is a reflection of robust demand in Alberta's economy.

The Year in Review: 2011

The Alberta economy sailed through global economic uncertainty in 2011. Fuelled by strong oil prices, activity in the oil patch powered ahead and job creation picked up steam. Robust income gains followed suit to help lift consumer spending. Overall, the Alberta economy is estimated to have grown 3.5% in 2011, with employment rising at a nation-leading 3.8%.

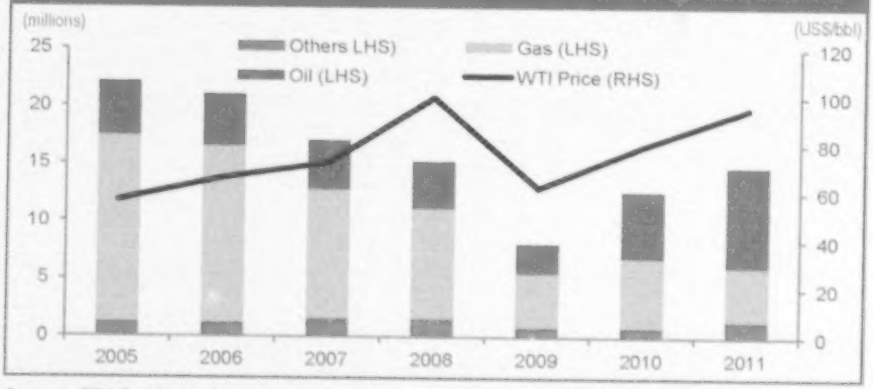
The year of debt and uncertainty

Leaders in Europe and the US spent much of 2011 grappling with record levels of debt. While debt concerns were brought to the forefront in 2010, the crisis escalated to a new level in the summer of 2011, with bond markets seriously questioning states' abilities to repay their mounting debts.

Last year's chapter in the crisis was once again sparked by Greece. This time, however, concerns quickly spread to encompass members of the Eurozone core including Spain and Italy. Pressures eased in the final months of 2011, thanks in part to efforts by the European Central Bank to provide liquidity to private banks. Still, by year's end, uncertainty from European sovereign debt remained a risk to the global economy.

After a hopeful start to 2011, the US economy struggled to find its footing. High oil prices in the first half cramped consumer spending. By mid-year, the political brinkmanship of extending the federal debt ceiling was followed by the S&P downgrade of US debt, leading to further erosion of both consumer and business confidence south of the border.

Alberta Meters Drilled and WTI Oil Price



Source: ERCB, Alberta Energy

In such an uncertain environment, the US unemployment rate remained stubbornly high at above 8%, and households continued to wean themselves off debt. In response to deteriorating economic conditions, the Federal Reserve announced that interest rates would stay near zero until the second half of 2013, a commitment that was recently extended to 2014. Fortunately, the final months of the year brought a glimmer of hope, as positive results emerged from the labour market and manufacturing sector. US economic growth accelerated to an estimated 3% in the fourth quarter.

Emerging economies drive growth

Led by China, emerging economies provided a much needed anchor for global growth. Their continued expansion supported demand for commodities, driving up the price of oil, agricultural products and other commodities through the year.

To finish 2011, it appeared that the European crisis was weighing on emerging markets, as manufacturing and export activity slowed. Policy makers in China ended the year by introducing monetary stimulus to support continued growth.

Oil prices climb

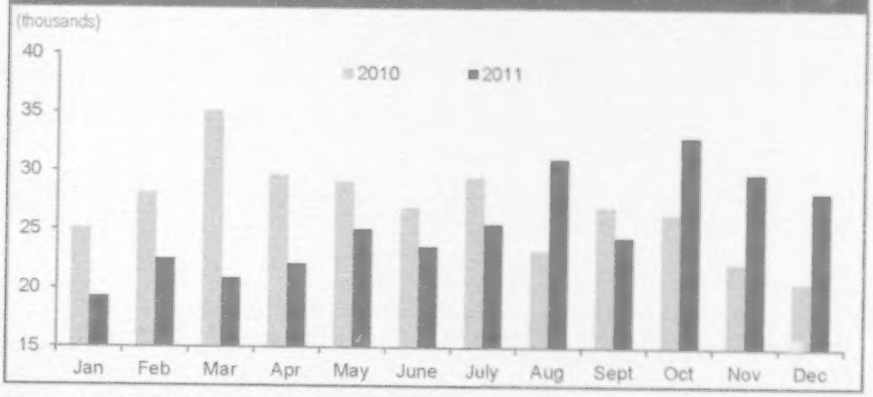
Amid weakness in developed economies, oil prices were supported by continued demand in emerging markets and geopolitical tensions in the Middle East. WTI started the year close to US$90/bbl, and peaked in April at US$109/bbl on strong first quarter results from the US and Libyan supply disruptions. By September, WTI had bottomed out at US$86/bbl on fears of a new financial crisis arising from Europe. Oil closed 2011 at around US$100/bbl, up close to 10% from where it started in January.

Strong commodity prices coupled with the debt issues and uncertainty in other developed countries kept the Loonie strong at or around parity with the US dollar for most of the year.

Business climate warms

The price of oil remained strong enough to promote a robust investment climate in Alberta. Many capital intensive oil sands projects were given the green light while advances in horizontal drilling and hydraulic fracturing unlocked previously unrecoverable tight oil reserves. The new drilling techniques pushed land lease sales sharply higher, as oil companies secured the rights to extract these tight oil reserves. The renaissance in conventional oil has dampened the effects

Alberta Housing Starts



Source: CMHC, Seasonally adjusted at annualized rates

of continued decreases in drilling for natural gas in Alberta. Overall, Alberta oil and gas investment surged 16% to $48.1 billion in 2011, its highest level on record.

The energy sector was not alone in enjoying a banner year. Alberta agriculture producers reaped the benefits of a fine growing season and higher prices in 2011. Farm cash receipts last year were up 16% over 2010.

Alberta manufacturers also took part in the expansion by setting an annual record for shipments at over $70 billion. By nearing pre-recession monthly sales peaks, the sector added meaningfully to growth and employment throughout the year.

Opportunities abound

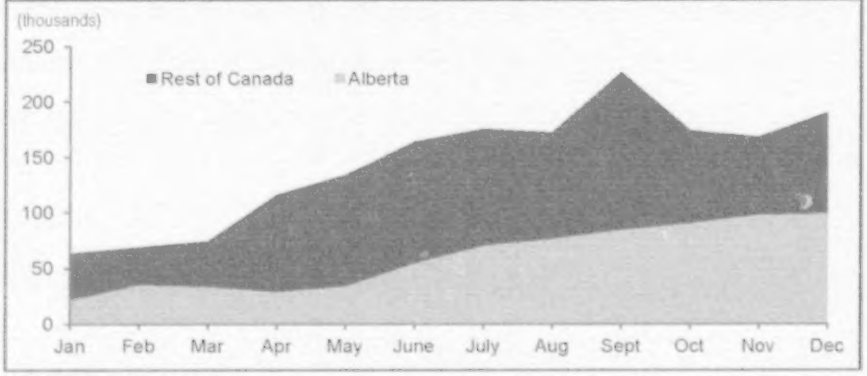
Firmly set in expansion, Alberta businesses added to their payrolls in 2011. The job market started the year with a bang, adding 35,600 positions in the first two months before taking a breather in March and April. May marked the start of eight consecutive monthly gains to close out 2011.

Between December 2010 and December 2011, Alberta gained almost 100,000 new jobs, or nearly half of the positions created in Canada over the period.

The yearly employment gains extended well beyond the rapidly expanding energy sector as a majority of industries added jobs throughout the year. All the net job gains came in full-time, private sector positions.

As a result of the nation-leading employment growth of 3.8%, Alberta's unemployment rate dipped from almost 6% in January to finish the year as the lowest in Canada at 4.9%.

New Jobs Created in 2011



Source: Statistics Canada

A tighter labour market helped drive up earnings. Average weekly earnings grew by almost 5% to average around $1,040 in 2011, almost 20% above the national average.

Jobs attract people to Alberta

Attracted by new jobs and higher wages, many people made the move to Alberta. The province welcomed almost 14,000 fellow Canadians in the 2011 Census year, after losing over 3,000 migrants to other provinces in 2010. International migration also played a vital role, as Alberta gained close to 14,000 people from outside Canada last year.

Albertans ring through the tills

With more money to spend, Albertans rang through a record year at retail stores. Since August, Alberta set four new monthly records for retail sales, breaking the mark set in June 2008. Overall, retail sales surged 7% in 2011, with big ticket purchases leading the gains.

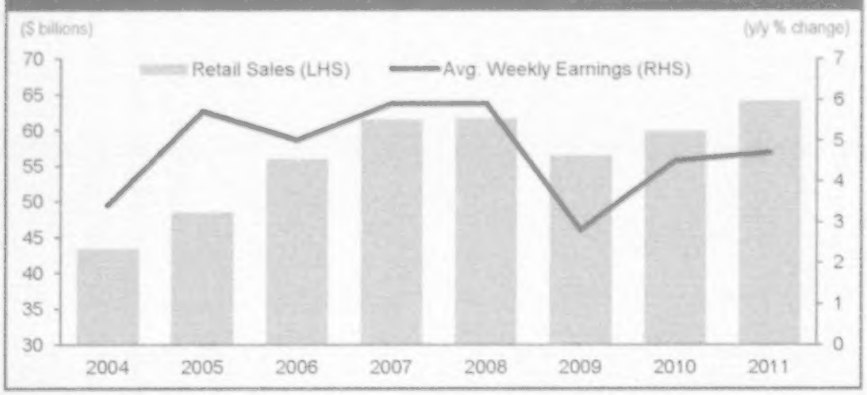
Housing starts remain tepid

The new house market began 2011 on a soft note, with starts dropping below 20,000 units in January for the first time since July 2009. In the first half of 2011, housing starts averaged 22,000, well below 2010 levels and a far cry from the housing boom peaks of 60,000 starts. As the year progressed, starts picked up markedly, averaging just under 29,000 new homes built in the second half of the year. In 2011, 25,700 new homes were started in Alberta, down slightly from 2010.

Overall, a strong year for Alberta's economy

All in all, the Alberta economy had a strong 2011 despite a difficult global economic climate. The year marked a return to a pre-recession level of output, along with new peaks in employment, retail sales and weekly earnings. Alberta is once again among Canada's growth leaders.

Alberta Retail Sales and Average Weekly Earnings



Source: Statistics Canada

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